ARE LABOR UNIONS ANTI-LABOR?

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For more than a century the economic thinking not only of the public, but of the majority of economists, has been dominated by a myth -- the myth that the labor unions have been on the whole a highly benevolent institution, and have raised the level of real wages far above what it would have been without union agitation. Many even talk as if the unions had been chiefly responsible for whatever gains labor has made.

Yet the blunt truth is that labor unions cannot raise the real wages of all workers. We may go further: the actual policies that labor unions have systematically followed from the beginning of their existence have in fact reduced the real wages of the workers as a whole below what they would otherwise have been. Labor unions are today the chief anti-labor force.

To realize why this is so we must understand what determines wages in a free market. Wage-rates are prices. Like other prices they are determined by supply and demand. And the demand for labor is determined by the marginal productivity of labor.

If wage-rates go above that level, employers drop their marginal workers because it costs more to employ them than they earn. They cannot long be employed at a loss. If, on the other hand, wage-rates fall below the marginal productivity of workers, employers bid against each other for more workers up to the point where there is no further marginal profit in hiring more or bidding up wages more.

So assuming mobility of both capital and labor, assuming free competition between workers and free competition between employers, there would be full employment of every person wanting and able to work, and the wage-rates of each would tend to equal his marginal productivity.

It will be said -- it has in fact repeatedly been said -- that such an analysis is merely a beautiful abstraction and that in the actual world this mobility and competition of labor and capital do not exist. There is, some economists have argued, in fact a wide range of "indeterminacy" in wages, and it is the function of unions to make sure that wage-rates are fixed at the top rather than the bottom of this wide range or zone.

We cannot reply that this indeterminacy theory is wholly wrong; but what we can say is that in relation to the problem of unions it is unimportant. The indeterminacy theory is true of wages only to the extent that it is true of other prices; it is true where the market is narrow or specialized. It is true, say, of highly specialized jobs in journalism, or in the universities, or in scientific research, or in the professions. But wherever we have large numbers of unskilled workers, or large numbers of workers of approximately equal special skills -- such as carpenters, bricklayers, painters, plumbers, printers, trainmen, truckdrivers -- this zone of indeterminacy shrinks or disappears. It is the craft unions themselves who insist that their individual members are so nearly equal to each other in competence that all should be paid an equal "standard" wage. And so we have the paradox that the unions exist and flourish precisely where they are least necessary to assure that their members get a market wage equal to their marginal productivity.

It is true, of course, that an individual union can succeed in forcing the money wage-rates of its members above what the free market rate would be. It can do this through the device of a strike, or perhaps merely the threat of a strike.

Now a strike is not, as it is constantly represented as being, merely the act of a worker in "withholding his labor," or even merely a collusion of a large group of workers simultaneously to "withhold their labor" or give up their jobs. The whole point of a strike is the insistence by the strikers that they have not given up their jobs at all. They contend that they are still employees -- in fact, the only legitimate employees. They claim an ownership of the jobs at which they refuse to work; they claim the "right" to prevent anybody else from taking the jobs that they have abandoned. That is the purpose of the mass picket lines, and of the vandalism and violence that they either resort to or threaten. They insist that the employer has no right to replace them with other workers, temporary or permanent, and they mean to see to it that he doesn't. Their demands are enforced always by intimidation and coercion, and in the last resort by actual violence.

So wherever a union makes a gain by a strike or strike-threat, it makes it by forcibly excluding other workers from taking the jobs that the strikers have abandoned. The union always makes its gains at the expense of these excluded workers.

It is amazing to find how systematically the self-proclaimed humanitarians, even among professional economists, have managed to overlook the unemployed, or the still more poorly paid workers, who are the victims of the union members' "gains."

It is important to keep in mind that the unions cannot create a "monopoly" of all labor, but at best a monopoly of labor in certain specific crafts, firms, or industries. A monopolist of a product can get a higher monopoly price for that product, and perhaps a

higher total income from it, by deliberately restricting the supply, either by refusing to produce as much as he can of it, or by withholding part of it, or even by destroying part of it that has already come into existence. But while the unions can and do restrict their membership, and exclude other workers from it, they cannot reduce the total number of workers seeking jobs.

Therefore, whenever the unions gain higher wage-rates for their own members than free competition would have brought, they can do this only by increasing unemployment, or by increasing the number of workers forced to compete for other jobs and so comparatively reducing the wage-rates paid for such jobs. All union "gains" (i.e., wage-rates above what a competitive free market would have brought) are at the expense of lower wages than otherwise for at least some, if not most, non-union workers. The unions cannot raise the average level of real wages; they can at best distort it.

As the gains of union workers are made at the expense of non-union workers, it is instructive to ask what proportion union members constitute of the whole working population. The answer for the United States is that union members now number less than 20 million, or less than 25 per cent of the total civilian labor force of 82 million. So the unions are in a distinct minority. This might not be a fact worth emphasizing if there were reason to think that the average earnings of union workers were below the average earnings of non-union workers. But while exact statistical comparisons are difficult, the evidence is conclusive that the case is the other way round. It is the most skilled occupations that are most unionized. In brief, we have a one-quarter minority of already higher-paid union workers exploiting a three-quarters majority consisting mainly of already lower-paid non-union workers.

People could save themselves a good deal of misplaced sympathy if, next time they read of a strike for a "decent wage," they take the trouble to compare what the strikers were already getting with, say, the official statistics of average wages for all non-agricultural workers.

The "gains" of union labor, of course, need not be solely at the expense of non-union labor; they may be at the expense of some union members themselves. The higher wage-rates gained in a particular industry (assuming an elastic demand for its product) will lead to less employment than otherwise in that industry. This may force unemployment on some of the members of the "successful" union. The result may then be that smaller <u>aggregate</u> wages will be paid in that industry than if the higher wage-rate had not been successfully imposed.

In addition, any union's "gains" (continuing to use "gains" in the sense of any excess over what would have been free market wage-rates) will be at the expense, not only of unemployment or lower

pay for other workers, but at the expense of consumers, by forcing them to pay higher prices. But as the great bulk of consumers consists of <u>other workers</u>, this means that these gains will be at the expense not only of non-union workers but also of other <u>union</u> workers. The real wages of the mass of workers are reduced whenever they have to pay higher prices.

Once it is clearly recognized that the strike-threat gains of each union are at the expense of all other unions, in forcing their members to pay higher prices for products, the whole myth of "labor solidarity" collapses. It is this myth that has kept the strike-threat system going. It has created sympathy for strikes and tolerance of the public harm they do. The mass of the working population has been taught to believe that all workers should support every strike, no matter how disorderly or for what unreasonable demands, and always to "respect the picket lines," because "Labor's" interests are unified. The success of any strike is thought to help all labor, and its failure, to hurt all labor.

This is the modern Great Illusion. In fact, each union's extorted "gains," by raising a specific industry's costs and therefore its prices, reduces the real wages of all other workers. The interests of the unions are mutually antagonistic.

I have been talking so far about the damage done by strike settlements, or by "gains" extorted under the threat of strikes; I have not yet talked about the damage done by the strike itself. While strikes are ostensibly directed against the employers, most of them are in fact directed against the public. The idea is that if enough hardship is inflicted on the public, then the public will insist that the employer capitulate to the strikers' demands.

There are too many instances of this to list. For examples I need not go outside of New York City in the last few years: The bus and subway strike. The strike of garbage collectors, bringing filth, stench, and the threat of an epidemic. The strike in late December, 1968, of fuel-oil deliverers and oil-burner repairmen, during an extreme cold spell and flu epidemic, when at least 40,000 persons in thousands of multiple dwellings were reported to be seriously ill and were deprived of heat. The strike of 20,000 employees of the Consolidated Edison Company which supplies the electric power for New York. Gravediggers' strikes. Hospital employees' strikes.

The chief leverage of the strikers, in securing capitulation to their demands, was the amount of hardship and suffering they were able to inflict, not directly on the employers, but primarily on the public. Yet, who are the public? They are in the main other workers, including other union members. They may even be members of the striking union itself and of their families. A striking fuel oil deliver's own children, for example, may be sick and shivering because no oil has been delivered.

This is the absurdity of "labor solidarity." This is the folly of a "general strike." Such a strike is suicidal for the workers themselves.

This is a war of each against all. The minute division of labor in our modern industrial society, which makes our society so productive, also makes it increasingly interdependent. So each of hundreds of unions successively tries to exploit the community's dependence on that type of worker's special services and on the harm it can do by withholding them and preventing anybody else from supplying them. A huge motor truck can be brought to a halt if someone removes either the carburetor, or the distributor, or the battery, or a single wheel, or even disconnects a single tiny wire. In the same way the industry of a country can be brought to a halt while the workers in a single small branch proudly demonstrate the indispensability of that branch's specialized services.

But how can anyone seriously believe that this disorderly, haphazard, violent, extortionate, piecemeal, every-union-for-itself scrimmage is the way to promote social justice? So far from the strike-threat system promoting cooperation within the "labor movement," each union leader, to hold his job, tries to prove that he can get more for the members of his particular union than others can get for their unions. This is a competition in leap-frogging, with each union trying to end up as the one on top of the heap.

I have yet to see any serious or self-consistent exposition anywhere of the union theory of wage formation. I have yet to see any union apologist, for example, try to determine scientifically exactly how much the members of a particular union are being underpaid, how much of an increase they are justified in demanding, and how much would be too much. The union leaders have one simple formula for every situation: More.

Insofar as they do have an implied theory, it seems to be some obscure form of the Marxist exploitation dogma. They never suggest that wages can be rightly determined by a free market. The employer, one gathers, never voluntarily pays what is "fair," but raises wages only in response to a strike-threat or "tough-bargaining" on the part of the union leaders. And the gains that the union wins for its members are solely at the expense of the employer and of his "excess profits." The gains of the workers simply leave less for the capitalists.

Now, this can indeed be true in a particular industry and for the short run. When capital has already been invested in a particular industry in expensive specialized plant or heavy equipment -- say, in a railroad, a steel plant, or an automobile plant -- that capital is locked in, is held hostage, so to speak, and it is possible for unions to exploit it. The plant will continue to be operated, and to employ labor, as long as it can still earn anything above running expenses, regardless of how little it yields on already invested

capital. But new fixed capital will not be invested in that plant or industry; at least, not until it can once more earn as much return as new capital invested elsewhere. Meanwhile, that industry will not expand, or will actually shrink, and employment in it will decline.

This result will follow not only because of the success of previous strikes or strike-threats in that particular industry. When strike-threats have become chronic in an industry, and seem likely to be systematically repeated, new capital and new investment will no longer venture into that industry. Union tactics may even end by discouraging and gravely reducing new investment everywhere.

Hence, the strike-gains of unions are at best short-run gains. In the long run they not only reduce employment but reduce the real wages of the whole body of workers. For the productivity of industry, and the real wages of workers, are dependent on the amount of investment of capital per head of the working population. It is only because American industry has invested more than industry in any other country -- some $25,000 for every production worker -- that American wages so greatly exceed wages in any other country.

Labor unions can only exploit capital already invested, and they can do this only at the cost of discouraging new investment. By discouraging new investment, by discouraging maintenance, expansion and modernization, labor unions in the long run reduce real wages below what they would otherwise have been.

But this is not the only way in which labor unions reduce real wages. They do so, and they have done so since the beginning of their existence, by jurisdictional disputes, by forcing the employment of more workers than are necessary for a particular job, by systematic hostility to piece-work, by forcing slowdowns, soldiering and malingering on the excuse that they are combatting unreasonable speed-ups, and by countless other featherbedding practices.

In a famous review of William T. Thornton's book on labor, John Stuart Mill wrote in 1869:

> Some of the Unionist regulations go even further than to prohibit improvements; they are contrived for the express purpose of making work inefficient; they positively prohibit the workman from working hard and well, in order that it may be necessary to employ a greater number. Regulations that no one shall move bricks in a wheelbarrow, but only carry them in a hod, and then no more than eight at a time; that stones shall not be worked at the quarry while they are soft, but must be worked by the masons at the place where they are to be used; that the plasterers shall not do the work of plasterers' laborers, nor laborers that of plasterers, but a plasterer and a laborer must both be employed when one would suffice; that bricks made on one

> side of a particular canal must lie there unused, while fresh bricks are made for work going on upon the other; that men shall not do so good a day's work as to "best their mates;" that they shall not walk at more than a given pace to their work when the walk is counted "in the master's time" -- these and scores of similar examples...will be found in Mr. Thornton's book.

These depressingly familiar practices, in short, have been going on for more than a century. The unions, far from "maturing," show not the slightest sign of abandoning them, but create more unreasonable obstacles than ever, still combat the introduction of labor-saving machinery, refuse to accept discipline, and undermine more and more management's ability to manage.

To reduce productivity is to reduce wages. These shortsighted practices can only have the long-run effect of keeping real wages far below what they could otherwise be.

It remains to say a word about the effect of unions on inflation. Contrary to a widespread opinion, unions do not directly cause inflation by using strikes or strike-threats to force wage-rate increases. The normal economic result of such excessive wage-rate increases would simply be to wipe out profit margins and create unemployment. But under the influence of Keynesian ideology and present political forces, it is assumed to be the duty of the monetary authorities to issue more money to raise prices to make the higher wages possible and payable. As long as this ideology lasts, wage increases forced by unions will lead to progressive inflation. This process must eventually collapse, with disastrous consequences. Meanwhile, by forcing faster increases in money wage-rates, it further promotes the popular illusion that unions raise real wages.

I have hitherto not mentioned a very important point which consistently escapes the Keynesians and all union apologists. A distinction that must be constantly kept in mind is that between wage-<u>rates</u> and aggregate wage <u>income</u>. Whenever higher wage-rates lead to disproportionate unemployment they reduce labor's total income. Therefore, such forced wage-rate increases are not a gain for labor but a loss for labor. But the union leaders and the union apologists put all their emphasis on winning higher wage-rates.

To sum up: The net overall effect of union policy has historically been to reduce productivity, to discourage new investment, to slow down capital formation, to distort the structure and balance of production, to limit and discourage apprentices, to drive non-union members into lower-paid jobs, and to reduce the total production and the total real wages and real income of the whole body of workers below what it otherwise would have been. The rates of wages that are best for the workers as a whole are those that are determined in the free market.

There are, no doubt, areas in which the activities of unions, wisely directed, could be on the whole beneficent -- in negotiating with individual employers, for example, concerning hours of work and such conditions of work as light, air, sanitary arrangements, rest rooms, coffee breaks, shop rules, grievance machinery, and the like. But wherever the unions are allowed to use violence and coercive tactics to achieve any aim, the long-run result is bound to be bad for the workers themselves.

This being so, what should be the public's attitude toward labor unions, and what should be the legal framework in which they operate?

The public must recognize, first of all, that the interests of unions and union leaders are by no means identical with the interests of labor as a whole, and that being pro-union is by no means synonymous with being pro-labor.

In accordance with the principle of freedom of peaceful association, the law should not prohibit unions, but neither should it go out of its way to encourage them. Certainly, the government should not continue, as it does in the United States, to turn itself in effect into a union-organizing agency and to force employers to negotiate with unions. And under no conditions should the law -- or the law-enforcement officials -- tolerate union violence, vandalism or intimidation.

To translate this into more concrete terms: American federal, state and city governments need not forbid unions of their own employees, but neither should they have any obligation to recognize, consult, or negotiate with such unions in fixing compensation or conditions of work. Under no conditions should they tolerate a strike by public employees. Public officials have been notoriously spineless in dealing with unions, but the law should give them wide discretion in deciding what penalties to impose, from loss of pay and mild fines to suspension or permanent dismissal. None of these penalties will be effective, of course, unless public officials also have a clear right to hire immediately temporary or permanent replacements for the strikers.

For private industry the minimum need is (1) the complete repeal of the Norris-LaGuardia Act of 1932 -- which in effect denies injunctive relief during a strike to employers and nonstrikers from violence, vandalism and intimidation -- and (2) the repeal of the Wagner-Taft-Hartley Act of 1935 and 1947 -- which compels employers to recognize and "bargain collectively with" specified unions and in effect make concessions to them.

Repeal of these and other laws would merely return the United States to the pre-1932 Federal legal situation. In addition, however, all mass picketing should be forbidden, as well as any picketing whatever that involves harassment or intimidation.

The century-old tolerance on the part of public officials of union coercion and violence is in large part a product of the myth that such violence is necessary to secure "fair wages" and "justice for labor." Not until this myth is destroyed can we hope to have labor peace, maximum real wage income, and orderly economic progress.